There has been a lot of interest lately in measures of brand equity. However, if you ask 10 people to define brand equity, you are likely to get 10 (maybe 11) different answers as to what it means. For example, in terms of determining the value of a brand in a brand acquisition or merger, three methods have been discussed by Smith (1988):

1. Market approach. The present value of the future economic benefits to be derived by the owner of property. The amount at which the property would exchange between a willing buyer and seller—with equity to both. This approach requires an active public market. For brands there is no such active public market.

2. Cost approach. The amount of money that would be required to replace the brand, which would include all of the costs for product development, test marketing, advertising, etc. Smith does not believe this is an appropriate method for brand valuation.

3. Income approach. In general this is the preferred method. The formula for brand value is \( V = \frac{I}{r} \), where:
   - \( V \) = value of the earning stream attributable to the brand,
   - \( I \) = income (net) derived from the brand (all inflows minus all outflows),
   - \( r \) = capitalization rate reflecting all business, economic, and regulatory risks associated with using the brand and achieving the prospective earnings.

According to Smith, most accountants are inclined to price a brand at four to six times the annual profit realized from the sale of the product bearing the brand name to be acquired.

Most marketers do not buy and sell brand names. They are more interested in questions about the value of their brand when competing for a sale of one unit in competition with other brands. Marketers need measures that will tell them whether they are successfully building a brand's value—short of putting the brand on the market for acquisition. Recently, some approaches have been introduced to help marketers with such measures of brand equity.

Image Power (Landor Associates)

Stewart Owen, Senior Vice President, Director of Research at Landor, recently addressed an ARF Brand Equity Workshop. His speech was entitled, “The World’s Most Powerful Brands.” Since 1988, Landor has been measuring the power...
of brands every two years. A total of about 5000 brand names are measured in the U.S., about 4000 in Western Europe, 1000 in Japan, and 1500 in Eastern Europe and the U.S.S.R. A total of 7000 different brand names are covered (some in more than one country) and about 10,000 respondents give the ratings.

Landor uses two independent criteria for rating a brand, (1) "share of mind" or how well a brand is known and (2) "esteem" or how well a brand is regarded. A brief report in the September 15, 1990, issue of The Economist cited Coca-Cola as top-ranked worldwide on "share of mind" whereas Pepsi-Cola was number three. Sony ranked at the top worldwide on "esteem," Coca-Cola was sixth, and Pepsi-Cola was 92nd. For Landor, the operational definition of brand equity is some combination of being well known and well regarded.

**EquiTrend (Total Research Corporation)**

Mike Barrett, Director of Marketing, EquiTrend Division of Total Research Corporation, believes that the best and most useful single measure of a brand is the consumer's perception of its "quality" (as defined by the consumer). Total uses an 11-point scale with 0 labeled "unacceptable/poor quality," 5 labeled "quite acceptable quality," and 10 labeled "outstanding/extraordinary quality." The respondent decides what basis he or she uses to define "quality."

In 1990, EquiTrend Wave I measures were taken on 100 brands. In the winter of 1991, EquiTrend Wave II measured 131 brands with a probability telephone sample of 2000 consumers (age 15 and older). The primary task of the respondent during the 30- to 35-minute interview was to rate the 131 brands on the 11-point scale. For each of the 39 product categories encompassed in the research, respondents were asked about the last time they had used it and, if that was within the past three years, they were asked which brand they used most often.

A second telephone interview was conducted with 1120 of the original 2000 respondents. The 30- to 35-minute reinterview was used to evaluate 58 additional brands, but the primary purpose of the reinterview was to collect media usage data and to rate 55 celebrities on the 11-point scale.

A marketer can buy into this database for $65,000.

**The Conversion Model (Market Facts, Inc.)**

According to Peter Mitchell at Market Facts, brand equity is a big issue these days and is defined as a willingness for someone to continue to purchase your brand (or not). Market Facts measures segments who are on a continuum from entrenched users of your brand to convertible users—defined by loyalty to the brand.

Originally applied to religion and politics, the Conversion Model was expanded to include broader marketing issues. The model includes measures of: Who are the loyal customers? What motivates them? How could loyalty be reinforced? What might undermine loyalty? Answers to those questions (and other questions among noncustomers) all go into determining and managing brand equity.
Equity Monitor (Yankelovich Clancy Shulman)

At Yankelovich Clancy Shulman (YCS), brand equity is a multidimensional corporate resource. YCS utilizes state-of-the-science models to address brand equity within a decision-making framework. Equity Monitor is a tool for understanding and managing the equity of a brand. It is an ongoing tracking study that builds off the Yankelovich Monitor consumer survey and helps to:

—measure the extent to which the brand is likely to benefit from the new consumer environment of the 1990s and
—discover the level of commitment to a brand based on quality, satisfaction, and brand reputation.

In addition, the Equity Monitor gives marketers relative corporate image ratings and information on media to reach current customers and good prospects.

Brand Equity Index (Longman-Moran Analytics, Inc.)

Longman and Moran recently delineated four ways to measure the (potential) profitability of a brand name.

1. Concentration. Within a product category, brands improve their profitability by concentrating their users—obtaining high market shares in some market segments.

2. Repeat rate. The higher the repeat rate in a product category, the higher the profitability of the category. Maintaining one’s share of market in a high repeat rate category is less expensive and therefore the brand can be more profitable.

3. Substitutability index. It is based on a scale produced from the answers to two questions:
   a. Which brand did you buy last time?
   b. If that brand had not been available, what would you have done? Waited, gone to another store, or bought another brand? If another brand, which one?

4. Brand equity index. A measure of demand elasticity between 0 and 100. A reduced-price offer will seem like more of a bargain for a brand with higher equity.

Brand Awareness \(\times\) Liking \(\times\) Perceived Quality (DDB Needham Worldwide)

Jeri Moore recently spoke on brand equity across markets at the 10th Annual Advertising and Consumer Psychology Conference. In her speech, Jeri operationally defined brand equity as the multiplicative sum of brand awareness, brand liking, and perceived quality.

Brand awareness was measured by handing respondents a set of cards with pictures of a brand name/logo. Respondents sorted the cards into three piles: those used, those heard of but not used, and those that were unfamiliar. Brand liking was measured by a single 10-point like-dislike scale. Brand perceptions also were measured on 10-point scales for five attributes (leading brand, brand I trust, suits me well, excellent quality, and worth the price). Jeri showed a good range of equity scores for several brands across five Western European countries.

Comments

I believe the most important element in determining brand equity is the amount someone (or some segment) is willing to pay for a product because it has a brand name on it rather than no brand name. However, the issue is not that simple. For example, a brand such as Suave shampoo is a low price
brand that probably has more equity than can be determined by simply comparing the price a consumer is willing to pay for it with the price of a generic shampoo.

I believe that all of the practitioners cited here have something to offer to marketers who are trying to cope with brand equity definition and management. But I would add to each approach the simple measure of the price the customer is willing to pay over and above the price of a generic product.

Reference
